miles with the Alaska Airlines Mileage Plan. The Ultimate Broadband Package, provides *basic cable television service, high speed broadband Internet service, as well as the* telephone services included in the Ultimate Package. The Essentials Package provides customers with basic cable service, basic local phone service, 150 minutes of out-of-state long distance calling, and 350 minutes of wireless service. The XpressNet Cable Modem Package is designed for those customers that simply want the phone services included in the Ultimate Package combined with faster cable modem Internet service.[2]

8. The benefits of UNE loop-based competition are not limited to the residential market. Much like it did with the Value Package for residential customers, GCI introduced new and special telephone service packages for business customers. Denali for Small Business, for instance, included basic service and many popular features such as Voicemail, Caller ID, distinctive ring and others that resulted in savings over individual features. Denali for Small Business has become one of the leading GCI business packages in the Anchorage markets. ACS eventually introduced similar packages to match GCI. GCI also developed Fast Track Primary Rate ISDN, which was designed to make ISDN service affordable and scalable for the small business customer. This service allows small businesses to purchase as few as 8 channels and up to 23 channels at an affordable price in all of our GCI local service markets.

9. Before GCI entered the market, other business services, such as Digital Subscriber Service, Primary Rate Interface, Basic Rate Interface, and Caller ID, were ostensibly available from the incumbent but were not priced at affordable rates or marketed aggressively to consumers. When GCI entered the market in Anchorage, it

[2] *See* Exhibit DT1, attached hereto.

lowered the prices and increased awareness of these services. With respect to Caller ID, for example, GCI lowered the price and provided customers free Caller ID boxes. *GCI's* competitive entry, in effect, fostered the spread and availability of the now ubiquitous Caller ID service. To keep pace, ACS has since responded and now markets these services at competitive prices.

10. GCI also used UNE loops to introduce new digital products such as Flexible Digital Subscriber Service (DSS) that allows small business customers in Anchorage to order fractional DS1 service and permits the customer to increase or decrease the number of channels in response to seasonal demand without charge twice a year. This type of service was designed to accommodate businesses that are geared principally to the seasonal trends of tourism. Prior to competition, small businesses had to pay and, in fact, still pay the incumbent significant fees to increase or decrease channel quantity.

11. Today, GCI uses UNE loops to offer businesses of varying sizes a total solution for communications requirements and provides comprehensive packages tailored to specific business needs, including long distance, local phone service, cellular service, data communications, Internet, Network design, commercial cable television, and cable advertising.

12. Apart from innovative service offerings and bundles, GCI's UNE-loop based competitive entry clearly has led to lower prices in Anchorage. Attached is a chart that provides a comprehensive comparison of the price savings that consumers can receive by purchasing service from GCI.[3] In all instances, GCI's service offerings are

[3] *See* Exhibit DT2, attached hereto.

lower in price than those of ACS. Additionally, GCI does not charge activation fees for new service, whereas ACS often does charge such fees to customers. Based on the ACS Local Tariffs, it appears that ACS frequently applies a $10.50 line activation fee and a $43 service order charge for their new Anchorage customers.

13. Maybe even more importantly, GCI's UNE loop-based market presence exerts price discipline on ACS. If ACS chooses to raise its prices, as it did in Anchorage in 2001 by implementing a 24% rate increase, consumers have the option of choosing a lower-priced service from GCI. In 2001, consumers in Anchorage could not turn to the other main competitor in Anchorage, AT&T Alascom, for a lower price because AT&T operated as a mere reseller of ACS's service, and therefore was forced to increase its retail rates to match the ACS increase. As a UNE competitor, GCI was not forced to increase its retail rates and refused to follow ACS's price increase and thus provided consumers with the option of less expensive phone service with GCI.

14. Moreover, since GCI's entry into the local service market, both GCI and ACS provide more customer service sites and longer store hours for improved customer convenience, service, and bill payment options. GCI established a number of store locations and increased service hours. To remain competitive, ACS has had to follow suit. Prior to GCI's competitive entry, opportunities to visit different customer service locations and the hours of these sites were limited for consumers. Moreover, GCI began working with businesses to offer unique night installations of voice services to reduce daytime business interruptions.

15. Competition also strengthens consumer education. GCI has helped to educate customers about the most economical service configurations. For example, GCI

introduced more choice and economical solutions for Centrex customers by offering to replace their proprietary Centrex phone sets.

16. Local exchange service competition also prevents ACS from reintroducing onerous customer term agreements. When GCI entered the local service business, ACS introduced term contracts that included penalties for early contract termination. In the early days of competition, the termination penalties were onerous and caused customers to remain with the incumbent. In response, GCI introduced the Guaranteed Value Program, which guarantees that GCI will always provide service on terms that are equal to or better than any competitive offer the customer receives during the term of the agreement. The Guaranteed Value Program offers customers the benefits of a discounted term contract but eliminates onerous termination penalties if GCI fails to meet or beat a competitor's offer within 60 days. GCI offers this program in all of its local service markets and, thus, has forced ACS to match the offer.

17. The litany of consumer benefits described above is not exhaustive. The benefits described do, however, provide representative examples of competition working to provide consumers with more innovative service offerings, lower prices, more choice, and more attention to the needs and demands of consumers, thus promoting the goals of universal service. By comparison, monopoly systems tend to stifle innovation, providing little or no incentive or pressure on the monopolist to innovate and attend to the demands and needs of customers. The consumer loses in these situations. ACS's monopoly behavior and the results for consumers is evidenced, for example, by the map attached as Exhibit DT3, which identifies areas where local exchange competition has not yet spread and where, not surprisingly, ACS does not offer the same types of bundled services that it

offers to consumers in areas where local exchange competition is present or imminent. Thus, for example, in areas like Angoon or Port Alexander, ACS does not offer any bundled services. Similarly, if the competition that now exists in Anchorage were undermined by the loss of available UNE loops at regulated rates, ACS could quite easily revert to the to pre-competitive service offerings available in Anchorage. Thus, the plethora of services, features, bundles, and price reductions created by GCI's presence in the Anchorage markets could disappear.

18. Competition is a dynamic process that forces companies to be innovative and efficient to win the allegiance of the customer. This philosophy lies at the heart of GCI's business strategy and success in the marketplace. Consumers in Anchorage undoubtedly have voted in favor of competition by choosing GCI in large numbers in the free and open marketplace. Both GCI and ACS will continue to compete for the customers' favor and allegiance, but only provided that ACS is not released prematurely from its obligation to offer UNE that complement GCI's growing facilities. The consumer has been and will continue to be the beneficiary so long as effective competition is allowed to flourish.

II. INTERCONNECTION AGREEMENTS NEGOTIATED IN JUNEAU AND FAIRBANKS ARE NOT INDICATIVE OF ACS'S WILLINGNESS TO NEGOTIATE REASONABLE RATES IN ANCHORAGE

19. The UNE loop rates that GCI was able to negotiate with ACS in the interconnection agreements for Juneau and Fairbanks were born of unique circumstances and do not signal ACS's willingness to reach a similar agreement in Anchorage. ACS's suggestion to the contrary is misleading at best.

20. The negotiations over UNE loop rates in Juneau and Fairbanks arose from GCI's petition to the RCA to terminate the rural exemptions for ACS's Juneau and Fairbanks affiliates. Throughout the proceedings, ACS's holding company and affiliates repeatedly asserted that without the rural exemption—specifically, exemption from their continuing obligations to provide GCI with access to unbundled loops—ACS Fairbanks, ACS Juneau, and ACS would face serious financial difficulties.[4] Indeed, after the Alaska Supreme Court removed the rural exemption and remanded the issue to the RCA for further consideration, ACS argued to the RCA that it was actively going out of business in the absence of a rural exemption.[5]

21. Despite these repeated claims of financial gloom and doom, on April 9, 2004—approximately two weeks before the scheduled hearing in the rural exemption proceeding—ACS's parent holding company filed with the SEC a draft prospectus for an Income Deposit Securities ("IDS") offering. IDS offerings involve the sale of equity and debt securities for investors looking for a current return in the form of interest payments and common stock dividends. Therefore, only companies with a strong, stable cash flow

[4] *See, e.g.*, The ACS Rural Companies Prehearing Memorandum, at 4 (RCA Dockets U-97-082; U-97-143) ("ACS-F and ACS-AK will suffer an undue economic burden as a result of the allowance of UNE-based competition in their markets.")

[5] *See, e.g.*, Prefiled Opposition Testimony of Kenneth L. Sprain, at 4 (RCA Dockets U-97-082; U-97-143) ("With the diminishing market shares and associated financial impacts, the Rural Companies have been forced to a point where they have already restricted our capital and maintenance expenditures to levels that provide only basic service and availability. These spending restrictions negatively affect many aspects of the companies' business, including capital spending, maintenance levels, and customer service."); *id.* at 6 ("Those companies are being sucked into a downward slide that results in a lower level of service that either company needs if they are to be at all successful in competition."); *id.* ("The ACS Companies' investment has to be paid with shrinking customer bases and rising labor costs. Unless this trend changes, the ACS Companies will be serving only the part of the market that is left over. They will not be competitive and their networks will continue to deteriorate.").

can make a successful IDS offering. Companies with volatile or declining cash flows are poor candidates for IDS offerings. At no time in that prospectus did ACS's parent acknowledge or disclose that it faced a material risk of impaired cash flow in the event that its Fairbanks and Juneau subsidiaries were required to continue to provide UNE loops to GCI.

22. On April 14, 2004, investment banking expert Gregory F. Chapados submitted Prefiled Supplemental Testimony on behalf of GCI to explain that the IDS offering conflicted sharply with ACS's statements that its near-term financial danger required RCA's reinstatement of ACS's rural exemption in Fairbanks and Juneau.[6] That testimony is attached as Exhibit DT5. An IDS offering, Mr. Chapados explained, depends completely on the strength, stability, and predictability of an issuer's cash flows. Thus, any truth to ACS's claims of financial deterioration would have inhibited the pursuit of an IDS offering in the public finance world. As Mr. Chapados concluded, "the chasm between the story that ACS spun before the RCA and the story it prepared to present to the public market is too great to be anything other than the result of deliberate calculation."[7]

23. Shortly after Mr. Chapados's testimony exposed the disparity between ACS's claims before the RCA and its IDS offering, and before the hearing at which certain ACS financial officers were likely to testify and be subject to cross-examination by GCI and the Regulatory Commission of Alaska, ACS and GCI were able to close the previously unbridgeable gaps on terms, particularly over the availability and rates for

[6] *See* Prefiled Supplemental Testimony of Gregory F. Chapados on Behalf of GCI, at 8 (RCA Dockets U-97-082; U-97-143) (April 14, 2004).

[7] *Id.* at 8.

UNE loops in Fairbanks and Juneau. There is no similar motivating factor for ACS today, and, thus, the fact that ACS had an incentive to negotiate mutually acceptable rates in Juneau and Fairbanks is not suggestive of ACS's willingness to do so in Anchorage.

24. In fact, GCI proposed to negotiate UNE rates for Anchorage at the same time the parties negotiated UNE rates for Fairbanks and Juneau. Despite the prospect of a lengthy and highly contested arbitration proceeding, ACS rejected that proposal and has at no time since shown any interest in voluntary negotiation of Anchorage UNE rates with GCI.

Respectfully submitted,

/s/

Dana Tindall
General Communication, Inc.
Senior Vice President for Legal, Regulatory, and
Governmental Affairs
2550 Denali Street
Anchorage, AK 99503

Exhibit DT1

GCI vs ACS
Bundled Product
Comparison
September 05

	GCI Ultimate Package	GCI Ultimate Broadband	GCI Essentials Package	GCI XpressNet Cable Modem	ACS High Speed Internet
Cable TV	135 channels of Digital cable including 47 commercial free music channels, access to Pay-Per View and a digital converter with universal remote.	19 channels of Basic Cable	19 channels of Basic Cable, 47 digital music channels, access to Pay-Per-View, and a digital converter with universal remote.	None	None
Internet	64/32 Kbps Litespeed	1.0MB Xtreme	64/32 Kbps Litespeed	320/128 Kbps Cable Modem Speed	320/240 DSL Speed
Local phone	Local Line with Voicemail plus 13 other features.	Local Line with Voicemail plus 13 other features.	Basic phone line with no features	Local Line Voicemail plus 13 other features.	Basic phone line with 11 features, voicemail not included but can be added fo $3.00/mo.
Long Distance	150 minutes of out-of-state calling	150 minutes of out-of-state calling	150 minutes of out-of-state calling	150 minutes of out-of-state calling	Easy Choices 100 Plan, 100 Anytime Interstate Minutes
Wireless	Not included. Can be added starting at $30/mo	Not included. Can be added starting at $30/mo	350 wireless minutes included (Local 350 GSM Plan)	Not included	Not included
Package Total	**$79.99**	**$79.99**	**$69.99**	**$49.99**	**$49.99**
UPGRADES AVAILABLE	Yes	Yes.	Yes	Yes	Yes
	Cable – premiums, more Digital & HD	**Cable** – premiums & boxes only. Can't upgrade to Preferred or Digital	**Cable** – premiums, Preferred, Digital and more	**None**	No
	Internet - faster speeds, **LD** – more minutes	**Internet** - faster speeds **LD** – more minutes	**Internet** - faster speeds	**Internet** speed 1mg for $64.99	**Internet** speed up to 1 mg for $69.99
	Wireless – can add any GSM Plan	**Wireless** – can add any GSM Plan	**LD** – more minutes	**LD** – more minutes	**LD** – more minutes
			Local – can add features	**Local** – can add features	**Local** – can add features
			Wireless – can upgrade to plans with more minutes and/or add partner lines.		

Exhibit DT2

Anchorage Local Telephone Service Cost Comparision

Basic Telephone Line (POTS)	GCI	ACS
Residential Access Line	*$9.40*	*$12.05*
Package (before taxes)	*$9.40*	*$12.05*
FCC Subscriber Line	$6.50	$6.50
Network Access Fee	$1.50	$1.50
Local Number Portability	$0.29	$0.29
Universal Access Charge	$0.10	$0.10
E911 Surcharge (eff. 10.1.05)	$1.50	$1.50
RCC	$0.15	$0.20
Fed. Universal Svc. Fund	$0.66	$0.66
Federal Tax	$0.28	$0.36
AUSF	$0.09	$0.12
Total (incl taxes)	$20.48	$23.28

Save with GCI	ACS higher by
$2.65	28%

ACS is 28% higher

Change rate Descrip

$6.50 SLC
$0.29 LNP
$0.10 UAC
$1.50 E911
1.641% RCC
10.200% Fed USF
3.000% Fed tax
1.000% AUSF
$1.50 NAF

Value Package	GCI	ACS Mini Bundle
Residential Access Line	$9.40	$12.05
Value Pkg (GCI)/Mini Bundle (ACS)	$6.09	$7.75
Enhanced Call Waiting, Caller ID, Caller ID w/ECW		
Package (before taxes)	*$15.49*	*$19.80*
FCC Subscriber Line	$6.50	$6.50
Network Access Fee (NAF)	$1.50	$1.50
Local Number Portability	$0.29	$0.29
Universal Access Charge	$0.10	$0.10
E911 Surcharge	$1.50	$1.50
RCC	$0.25	$0.32
Fed. Universal Svc. Fund	$0.66	$0.66
Federal Tax	$0.46	$0.59
AUSF	$0.15	$0.20
Total (incl taxes)	$26.92	$31.47

Save with GCI	ACS higher by
$4.31	28%

ACS is 28% higher.

Value Package Advantage	GCI	ACS Simple Solutions
ACS Access Line	$9.40	$12.05
Value Package Advantage w/VM	$9.59	
Simple Solution feature package		$9.25
ACS voicemail		$3.00
Package (before taxes)	*$19.99*	*$24.30*
FCC Subscriber Line	$6.50	$6.50
Network Access Fee	$1.50	$1.50
Local Number Portability	$0.29	$0.29
Universal Access Charge	$0.10	$0.10
E911 Surcharge	$1.50	$1.50
RCC	$0.31	$0.40
Fed. Universal Svc Fund	$0.66	$0.66
Federal Tax	$0.57	$0.73
AUSF	$0.19	$0.24
Total (incl taxes)	$30.61	$36.22

Save with GCI	ACS higher by
$5.31	28%

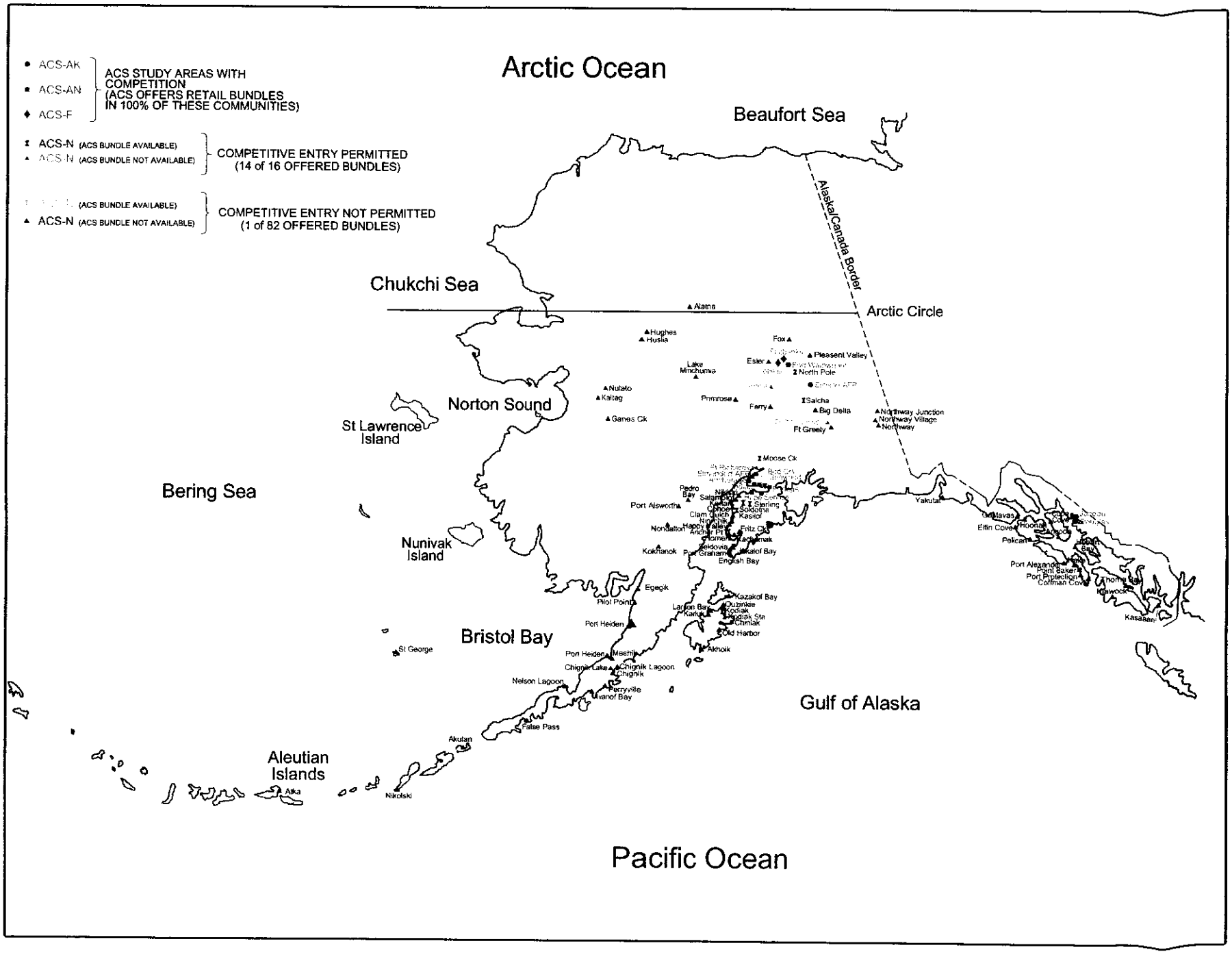
ACS is 34% higher.

Value Package Plus	GCI	ACS Bundle
Residential Access Line	$9.40	$12.05
GCI Value Package	$6.09	
GCI Value Package Plus	$6.50	
ACS Make a Bundle		$15.90
ACS voicemail		$3.00
Package (before taxes)	*$21.99*	*$30.95*
FCC Subscriber Line	$6.50	$6.50
Network Access Fee	$1.50	$1.50
Local Number Portability	$0.29	$0.29
Universal Access Charge	$0.10	$0.10
E911 Surcharge	$1.50	$1.50
RCC	$0.36	$0.51
Fed. Universal Svc Fund	$0.66	$0.66
Federal Tax	$0.66	$0.93
AUSF	$0.22	$0.31
Total (incl taxes)	$33.78	$43.25

Save with GCI	ACS higher by
$8.96	41%

ACS is 41% higher.

Exhibit DT3


ACS-AK
ACS-AN
ACS-F
ACS STUDY AREAS WITH COMPETITION (ACS OFFERS RETAIL BUNDLES IN 100% OF THESE COMMUNITIES)
ACS-N (ACS BUNDLE AVAILABLE)
ACS-N (ACS BUNDLE NOT AVAILABLE)
COMPETITIVE ENTRY PERMITTED (14 of 16 OFFERED BUNDLES)
(ACS BUNDLE AVAILABLE)
ACS-N (ACS BUNDLE NOT AVAILABLE)
COMPETITIVE ENTRY NOT PERMITTED (1 of 82 OFFERED BUNDLES)
Arctic Ocean
Beaufort Sea
Alaska/Canada Border
Chukchi Sea
Arctic Circle
Norton Sound
St Lawrence Island
Bering Sea
Nunivak Island
Bristol Bay
Gulf of Alaska
Aleutian Islands
Pacific Ocean
Alatna
Hughes
Huslia
Fox
Pleasant Valley
Lake Minchumina
Esler
North Pole
Nulato
Kaltag
Primrose
Ferry
Salcha
Big Delta
Northway Junction
Northway Village
Northway
Ft Greely
Games Ck
Moose Ck
Port Alsworth
Sterling
Kasilof
Fritz Ck
Kokhanok
Kalifornsky
Kasilof Bay
English Bay
Egegik
Pilot Point
Kazakof Bay
Ouzinkie
Kodiak
Chiniak
Old Harbor
Akhiok
Port Heiden
Meshik
Chignik Lake
Chignik Lagoon
Chignik
Nelson Lagoon
Perryville
Ivanof Bay
False Pass
Akutan
St George
Nikolski
Atka
Yakutat
Gustavus
Elfin Cove
Hoonah
Pelican
Port Alexander
Point Baker
Port Protection
Coffman Cove
Thorne Bay
Klawock
Kasaan

C

REDACTED FOR PUBLIC INSPECTION

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Petition of ACS of Anchorage, Inc. Pursuant to	)	
Section 10 of the Communications Act of 1934,	)	WC Docket No. 05-281
as amended, for Forbearance from	)	
Sections 251(c)(3) and 251(d)(1)	)	
In the Anchorage LEC Study Area	)	
	)	

Declaration of

William P. Zarakas

January 9, 2006

I, William P. Zarakas, under penalty of perjury, hereby state the following:

I. Introduction

1. My name is William P. Zarakas. I am a Principal with The Brattle Group, an economic consulting firm, where I am responsible for the firm's work in the area of telecommunications economics. My work at The Brattle Group has primarily involved economic and regulatory-related analysis pertaining to the telecommunications industry. Among other issues, I have had significant involvement in the modeling of economic feasibilities, economic impacts of regulatory initiatives, and valuation of telecommunications related businesses and assets. I have performed economic analyses on behalf of both telecommunications carriers and regulatory agencies in the United States and in other parts of the world. I have testified before a range of regulators on issues associated with economic, cost and rate analyses. My curriculum vita is attached as an appendix to this declaration.

2. The purpose of this declaration is to provide the Federal Communications Commission (FCC or Commission) with the results of my analysis concerning the economic feasibility of General Communication, Inc. (GCI) serving its local exchange customers in the Anchorage study area exclusively over its own facilities. The results of this analysis are important for the FCC to consider as it weighs the merits of ACS's petition for forbearance from Sections 251(c)(3) and 251(d)(1) of the Communications Act in the Anchorage study area. Under the forbearance requested by ACS, ACS would be relieved of the regulatory requirement to provide GCI and/or other competitive local exchange carriers (CLECs) in Anchorage with access to unbundled network elements (UNEs) at rates based on total element long run incremental costs (TELRIC). In order to provide telecommunications services to customers in Anchorage under the forbearance requested by ACS, GCI and/or other CLECs would have to rely upon their own facilities, ACS service obtained at wholesale rates (discounted from retail prices), and/or upon leasing ACS facilities at unregulated rates (if ACS chose to make those available at all).

3. As Dr. David Sappington discusses in his declaration, forbearance from unbundling requirements is appropriate only when the incumbent local exchange carrier (ILEC) is unable to exercise market power because competition prevents the ILEC from raising prices above the costs of an efficient supplier of telecommunications services. ILEC market power can be

eliminated if either multiple efficient suppliers (including self-provisioning suppliers) of relevant *inputs are present in the market (i.e., alternatives to ILEC facilities) or efficient CLECs have* access to UNEs at regulated rates (*i.e.*, reflecting the cost of an efficient supplier). In this declaration, I discuss whether or not GCI is able to self-provision an economically feasible alternative to the incumbent's network in the Anchorage local exchange market.

4. In Anchorage, which Dr. Sappington points out is actually comprised of multiple product and geographic markets, approximately 85% of the switched voice lines and **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of non-switched circuits are currently provisioned over ACS facilities – either directly by ACS or through GCI using ACS's lines through wholesale arrangements (including both UNEs and resale). GCI is largely dependent on ACS (through regulated wholesale arrangements) for the majority of switched and non-switched lines that it provides to its retail customers. As a result, ACS has substantial control over the wholesale local exchange markets in Anchorage wherever GCI does not have such network capabilities in place, and will continue to hold such control until GCI (or another competitive local exchange carrier) has sufficient network capabilities in place throughout Anchorage to serve customers in each relevant product and geographic market over its own facilities.

5. In this declaration, I specifically examine the economic feasibility of GCI extending its cable and fiber optic networks to serve that portion of its current customer base which it currently serves over lines leased from ACS. GCI currently has a cable network in place across much – but not all - of Anchorage,[1] and has announced plans to continue to upgrade this plant to provide digital local phone service (DLPS).[2] GCI also has a fiber optic network located in parts of Anchorage[3] over which it provides high capacity services to customers with sufficient demand and proximity to this network. As Exhibit BB1 to the Declaration of Blaine Brown illustrates, this fiber network is not ubiquitous. My analysis concerns the economics of GCI extending, and in the case of the cable network, upgrading, these network assets (and incurring additional

---

1 For the purposes of this declaration, Anchorage is defined as the ACS LEC study area. As is reflected in Exhibit E to the Opposition of General Communication, Inc. to the Petition for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications Act filed by ACS of Anchorage, GCI's Opposition, GCI's authorized cable service area does not cover the entire Anchorage LEC service area.

2 DLPS refers to the telephony services that GCI provides over its cable network.

3 GCI fiber network is deployed in metropolitan sections of Anchorage. Such an arrangement is frequently referred to as a metropolitan area (fiber) network, or MAN.

investment to do so) in order to serve its customers that it currently provisions over facilities leased from ACS.

6. The remainder of my declaration is organized as follows. In Section II, I summarize the overall findings and conclusions which I derive from my analysis of the economic feasibility of GCI being able to upgrade and, in the case of fiber, extend its facilities to self-provide an alternative telephony network to ACS's in the Anchorage local exchange markets. In Section III, I provide an overview of the local exchange markets in Anchorage, with particular focus on GCI's customer and provisioning mix. In Section IV, I discuss the methodology that I employed to determine whether or not, and the extent to which, GCI is able to provide an economically feasible alternative to ACS's network in the Anchorage local exchange markets. I discuss the specific application of this methodology to GCI's residential and small business customer markets (to which GCI provides less than eight switched voice lines)[4] and to GCI's medium and large business market (to which GCI provides non-switched high capacity services and/or switched voice services of eight or more DS-0 equivalents) in Sections V and VI. I also provide an analysis of the sensitivities of my results to the key variables that I include in my analysis in these sections. I summarize my findings in Section VII.

II. Conclusions

7. My analysis indicates that although GCI can economically feasibly reduce its use of leased facilities from ACS – as GCI is already doing in carrying out its existing, ongoing cable telephony upgrade efforts – even following the conversion of **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of switched lines and **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of non-switched circuits onto GCI facilities, ACS will continue to control a significant percentage of both switched and non-switched lines to retail customers in Anchorage and GCI will still need to lease ACS facilities in order to serve the full range of customers across the various relevant Anchorage product and geographic markets. Put another way, my analysis indicates that GCI will not be able to provide an economically feasible alternative to the ACS network in Anchorage for **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of its current customers. As is further discussed in the Declaration of Dr.

[4] Home offices and small offices (SOHO) are included in either the residential or small business segments depending on the tariff under which the service is provided.

Sappington, where GCI does not have economically feasible alternatives that can be *operationally implemented and permit GCI to deliver service to a requesting customer within a* commercially reasonable period of time, forbearance as requested by ACS would result in ACS being able to exert market power in both retail and wholesale markets. As Dr. Sappington and Ms. Gina Borland further point out, this is especially true in the business market in which customer arrangements are generally individually negotiated.

8. I examined switched voice services separately from non-switched services. I found this to be a conservative approach, especially with regard to estimating the extent to which GCI can economically self-provision to its medium and large business market. This approach assumes that GCI can use DLPS to provide switched voice service to all of its switched voice line market, including medium and large business. As Gary Haynes suggests in his declaration, however, technologically this may not be the case. Thus, my analysis may yield optimistic results concerning the economic feasibility of GCI being able to self-provision switched voice services to the medium and large business market.[5] (Later in my declaration, I summarize my analysis concerning GCI's self-provision of combined switched and non-switched services over a single platform).[6]

9. I turn first to switched voice lines. If GCI over time converts the switched voice lines that it currently provisions over facilities leased from ACS (primarily through leases of UNE-L) to its own loop facilities to the extent that my analysis suggests is economically feasible, I estimate that the percentage of retail switched voice lines that are served over ACS lines in Anchorage – either directly by ACS or through GCI using ACS's lines through wholesale arrangements – would decline from the current level of approximately 85% to **[BEGIN**

---

[5] The solution to the telecommunications demands of many medium and large business customers are frequently complex, involving more than simply arranging for connections to separate switched or non-switched lines. For example, switched voice services for medium and large business customers may be provided through a private branch exchange (PBX) which involves connection to one or more non-switched circuits.

[6] As I will explain in this declaration, I show the economic feasibility analysis of switched voice lines over cable plant in **Exhibit I** and the analysis of non-switched lines over fiber optic plant in **Exhibit II**. The medium and large business market includes a portion of the switched voice lines (served over cable plant) included in **Exhibit I** and all of the non-switched circuits (served over fiber plant) included in **Exhibit II**. In **Exhibit IX**, I conduct an alternate sensitivity by assuming that the switched demand in medium and large business locations can only be served over fiber plant, because of the technological issues discussed in footnote 5. I summarize the economic feasibility of serving this demand (as well as locations with non-switched services) over GCI's fiber network.

CONFIDENTIAL][END CONFIDENTIAL]. Put another way, GCI would still need to lease *ACS loops*[7] to serve **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** (**[BEGIN CONFIDENTIAL][END CONFIDENTIAL]**) of its switched voice lines – a percentage that, as discussed below, will vary in different areas of Anchorage and by customer classes. A summary of the results of my analysis of the switched voice lines is included in **Exhibit I.**

10. My analysis confirms the economic viability of GCI's current plans for cable plant upgrades. I find that it is economically feasible for GCI to upgrade its cable network to provide switched voice services to **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** – of its mass market (*i.e.*, residential and small business) customers. GCI will not be able to upgrade cable plant for DLPS in those areas where it does not already have cable plant in place.[8] Also, based on its past experience with mass market customers, a small number of customers will not allow GCI access to their premises, stymieing the final step of the conversion process. Together, these factors result in GCI not being able to economically serve **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** (or **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]**) of its **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** residential switched voice lines over its cable plant. However, as **Exhibit I** reflects, there is a marked difference between GCI's ability to self-provision service to residential and small business customers. GCI will not be able to economically self-provision to **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of its switched voice lines in its small business customer segment, primarily because its cable plant does not pass many of these customer locations. It is not correct, therefore, to treat residential and small business markets as facing equivalent market circumstances.

11. For the medium and large business customer segment, I find that there will be **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of customer locations for which GCI cannot economically self-provision loop facilities. Even assuming that a medium or large sized business customer would be willing to split its purchase of switched and non-switched services and that switched voice services could be technologically provided over DLPS, my analysis indicates that GCI would be unable to economically self-provision service to **[BEGIN**

---

[7] For the purposes of this declaration, the phrase "leases" or "leased from ACS" encompasses any method by which GCI secures the use of ACS facilities to serve GCI retail customers, including UNEs and resale.

[8] Cable plant "in place" means that a drop to a customer premise is already there (even though it may need to be upgraded) or a drop can easily be added (typically aerially).

CONFIDENTIAL][END CONFIDENTIAL] of the switched voice lines taken by the medium and large business segment. *This is also summarized in* ***Exhibit I.***

12. I also find that the economic feasibility of GCI being able to convert leased switched lines onto its own network is sensitive to the initial capital expenditures required to upgrade GCI's cable plant, particularly with regard to the residential customer segment. I applied GCI's capital expenditures included in its current cable plant upgrade schedule in my economic feasibility analysis. The incremental per line cost of upgrading its cable plant could increase if GCI is required to accelerate its upgrade schedule. As I discuss later in this declaration, a substantial increase in per line incremental costs would serve to make GCI's cable upgrade program uneconomic.

13. GCI's ability to serve its customers with switched local voice service over its own facilities varies by geography within Anchorage, and therefore the entire Anchorage LEC study area is not properly a single relevant geographic market. The economic viability of GCI being able to provide DLPS requires that basic cable facilities be in place. However, GCI does not have ubiquitous cable plant facilities throughout Anchorage, especially in certain non-residential areas. As I show later in my declaration, in only two wire centers does GCI's cable plant pass **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of GCI business switched local voice lines. In the other wire centers, GCI's cable plant does not pass from **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** to **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of its business switched local voice lines.[9] Serving these customers with DLPS would require a complete build-out of cable infrastructure – and, in some cases, could require securing a cable franchise - not simply an upgrade to its existing cable plant. Changing the level of incremental investment from that associated with upgrading existing cable plant to a comprehensive cable plant build-out could make GCI's provision of DLPS uneconomic.

14. I turn next to non-switched services. A summary of the results of my analysis of the non-switched market is included in **Exhibit II. Exhibit II** indicates that GCI currently provisions **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** DS-1s to business customers at **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** locations. Of these, **[BEGIN**

[9] Estimates of cable plant coverage are based on GCI studies of switched voice line customer addresses compared to GCI cable plant homes passed addresses.

CONFIDENTIAL][END CONFIDENTIAL] DS-1s (**[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of the total DS-1 circuits that it provides to its business customers) serving ***[BEGIN CONFIDENTIAL][END CONFIDENTIAL]*** locations are provisioned using circuits leased from ACS. If GCI was not able to lease circuits from ACS, my analysis indicates that GCI will not be able to economically self-provision loops to reach **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** of the total **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** (or **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]**) of the medium and large enterprise business locations to which GCI provides non-switched services, or **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of the **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** circuits that it currently leases from ACS.[10]

15. I show later in this declaration that economic preclusion is particularly strong for locations with demand of less than about 2 DS-1s, which is the demand level for **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of GCI's medium and large business customer locations taking non-switched circuits.

16. Because many business customers demand more complex telecommunications services than can currently be provided over DLPS, I also consider the economic feasibility of GCI providing non-switched services and/or switched voice over its fiber optic network. I show later in my declaration (and in **Exhibit IX**) that GCI can economically serve through its fiber optic network **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of the medium and large business locations that it currently provisions over lines leased from ACS – leaving **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** that must be served (if it all) over ACS facilities. If I assume a higher level of risk associated with constructing facilities to serve these customers

[10] **Exhibit II** provides two estimates of GCI non-switched circuits following economically feasible conversion. GCI leases **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** DS-1 circuits in **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** locations that are on its fiber network because of customer requests for network diversity and/or data security, as well as scheduling or convenience considerations. Assuming all of these circuits are converted onto GCI's network, GCI will be unable to serve a total of **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of non-switched demand (in **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of non-switched locations). This is a conservative assumption. Alternatively, assuming GCI is unable to convert the **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** leased circuits in the **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** locations, GCI will be unable to serve a total of **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of non-switched demand (in **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of non-switched locations).

(from the 8.5% weighted average cost of capital that I used as a base case in my analysis up to *15%), my analysis indicates that GCI would only be able to serve economically* **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of the medium and large business locations that it currently provisions over lines leased from ACS – leaving **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** that can only be served over ACS facilities.

III. Anchorage Local Exchange Markets

17. **Exhibit III** provides a summary of the number and proportionate shares for retail switched local voice lines in Anchorage, taken as a whole. As discussed in the Declaration of Dr. Sappington, such an aggregate approach is not the correct way to view the product or geographic market; however, it confirms ACS's general contention that GCI has achieved an overall retail share of about 49% in Anchorage's retail switched local voice lines, and has captured **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** the share (**[BEGIN CONFIDENTIAL][END CONFIDENTIAL]**) of residential switched local voice lines.[11] While informative, these statistics reveal little to assist the Commission in gauging the degree of market power currently realized by ACS. Review of the method of line provisioning employed by GCI indicates that GCI remains highly dependent upon ACS to deliver its telecommunications services to its customers. Therefore, under forbearance and in the current state of the Anchorage markets, as Dr. Sappington explains, ACS could raise substantially the prices GCI must pay for the inputs it requires to serve the vast majority of its customers. This conclusion is even stronger with respect to non-switched services, for which, as **Exhibit II** shows, ACS has approximately a **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** retail market share, in addition to its control of wholesale facilities.[12]

18. **Exhibit IV** shows the method of provisioning for GCI's retail switched lines, and indicates that currently **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of GCI's switched local voice lines provided to its residential customers and **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of switched lines provided to its business

[11] The majority of the switched local voice lines that GCI provides to its residential customers are located in single family and multi-family homes. **[BEGIN CONFIDENTIAL][END CONFIDENTIAL]** of GCI's residential switched local voice lines are located in multi-dwelling units (MDUs), which are roughly equivalent to apartment buildings, with eight or more lines.

[12] Based on data reported by ACS in Form M filed with the Regulatory Commission of Alaska.